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Folio:

MARCH 1989 THE MAGAZINE FOR MAGAZINE MANAGEMENT $6.50

EARL KELENY

Are retailers getting the message?

Publishers have been counting on the Direct Product Profit study commissioned by Magazine Publishers of America to force retailer recognition of the value of magazines. But do the right people at the chains know about it, understand it, use it? An exclusive FOLIO: and *Supermarket Business* survey provides an objective report on how major supermarket and convenience store chains are responding to this important industry effort. **98**

Fitness of mind, body and magazine

stein is piling his plate new projects, such as le facing rising competithe likes of Time Inc., l Family Media. To fight tein has been his $60 ıpany on a strict fitness **65**

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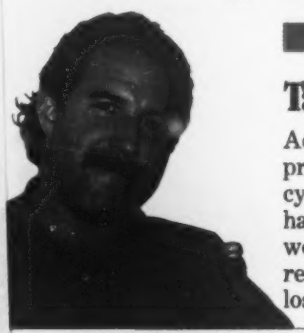
MARGARET HUNTER

Desktop color: Better and better

What's happened to the vision of totally computerized color page layout? As is often the case, reality has not quite lived up to the dream. But in spite of delays, desktop color still holds out the promise of lower production costs, tighter deadlines and more exciting layouts. **116**

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(unfold ⟶)

March 1989

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ABP The Audit Bureau MPA

Bush pressed for postal reform

The Postal Service needs competition and a flexible work force, says Heritage Foundation

COMSTOCK, INC./RUSS KINNE

Give up the postal monopoly, the conservative Foundation told Bush, who'll be appointing members to postal commissions.

Washington, D.C.—The Postal Service Reorganization Act of 1970 is obsolete, and inefficiency costs the United States Postal Service $5 billion of its $30 billion budget yearly, according to the Heritage Foundation, a conservative think tank that has presented recommendations for postal reform to President Bush.

The Foundation further notes that the cost of a first-class stamp has increased faster than the rate of inflation during the past 19 years, says Stephen Moore, economic policy analyst for Heritage.

The Foundation, which outlined about a dozen recommendations for change, calls for Bush to set up a Presidential committee to review the changes. This committee might study labor costs, which now account for 83 percent of postal costs. In addition, Heritage wants the Postal Service to give up its monopoly on delivering certain classes of mail.

The Postal Service has a horrendous batting average with third class mail, adds Moore. At least 70 percent of third class mail is either delivered late or not at all. "One way to improve this is to experiment with more competition," he explains. "I don't think the public would be upset about having a separate company deliver advertising fliers."

Heritage also urges President Bush to appoint pro-competition people to the Postal Board of Governors and the Postal Rate Commission. It is unlikely, however, that Bush will make any immediate appointments, because all nine governors and five commissioners are Reagan appointees with time left in their terms.

The report also calls for relaxation of work rules, since the Postal Service must now limit its part-time employees to 5 percent of its work force. "Our recommendation is that the Postal Service get as much flexibility as it needs," says Gene Del Polito, executive director of the Third Class Mailers Association and a consultant on the Heritage Foundation recommendations.

Del Polito, however, takes issue with other points in the report. The Foundation, for example, wants the Postal Service budget to continue as part of the larger Congressional budget. Unfortunately, Del Polito argues, this gives Congress the mandate to decide how much money the Postal Service can borrow or how it must account for its expenses. The Postal Service, unlike other Government organizations, is a profit making business and should therefore be exempt from Government controls, he says.

'A terrible idea'

Other mailers also disagree with the Foundation's suggestions. "A Presidential commission is a terrible idea," says postal consultant Michael Cavanagh. "You don't need to have a commission appointed every time you have a problem. Mailers should try to resolve the problems in other ways." As for other companies to deliver the mail, "that is not something that is going to happen," he comments.

At press time, the Foundation had not received a response from the Bush administration on the proposed changes. "The Postal Service isn't one of the sexiest Government organizations," says Moore. The Foundation's report contained 40 chapters that covered other Government concerns, such as the Office of Management and Budget.—*J.M.A.*

Libel cases diminish, study reports

But access litigation is on the rise

Chicago—High cost, headline-making libel cases are finally thinning out, according to a nationwide survey by The Society of Professional Journalists (SPJ). The reason: Plaintiffs have realized that weak cases will not hold their own in court, and the media have taken a more careful look at handling stories and complaints, the study reveals.

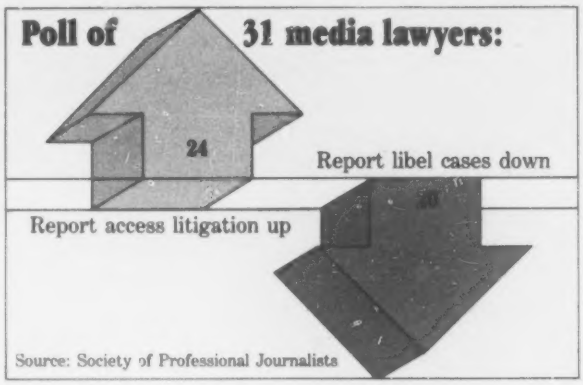
At the same time, however, courts are facing more cases in access litigation, according to the four-month survey titled "Media Litigation '88." The increase in access disputes, the survey says, results from increased courtroom and public meeting closings, combined with the routine sealing of court documents.

Still, "for the first time in recent memory, news organizations are disposing of old libel actions faster than plaintiffs are filing new ones," reports the survey. Just two or three years ago, for example, the *Miami Herald* at times was faced with up to 10 pending libel actions, according to the survey. But only one case—filed in 1983—remains today. Libel cases have dropped about 17 percent in the last three years, compared to the average from the previous five years, reports Paul O'Brien, an attorney for Mutual Insurance Company of Bermuda, one of the industry's largest libel insurers.

In contrast to access laws, libel is well defined, and these boundaries are finally holding back plaintiffs, the survey states. "This heavy burden of proof, the result of more than 20 years of the Supreme Court's grappling with centuries-old libel law, is now beginning to have its designed 'chilling effect' on potential libel plaintiffs," the SPJ says in its report.

In addition, the notable long and expensive cases—General Ariel Sharon

against Time Inc., William Westmoreland against CBS, and Mobil Oil Company president William Tavoulareas against *The Washington Post*—have discouraged weak claims, according to the study.



"The Sharon and Westmoreland trials have been instrumental in the decrease in libel suits," states *New York Times* attorney George Freeman in the report.

The media has also renewed efforts to prevent libel claims, states the study of 31 newspapers, broadcast stations and news organizations. Recent actions include closer editorial supervision of investigative reporting, more frequent use of media lawyers to preview sensitive or potentially libelous stories, and willingness to publish corrections or clarifications when appropriate. The study shows that people are usually mollified by responsible reactions to their complaints about what was printed or aired, says Paul McMasters, chairman of the SPJ's National Freedom of Information Committee.

"This has been a minefield for so long for so many people," McMasters says of libel.

And while the decrease in libel cases is significant, some media lawyers also see a trend toward higher damage awards. The report cites the $3.05 million awarded to tobacco company Brown & Williamson against CBS, saying the amount is nearly four times greater than any other damage award upheld on appeal.

Media lawyers are also spotting libel actions taken on in the name of privacy. According to the report, plaintiffs sometimes sue for invasion of privacy and emotional distress, rather than libel.

Access cases surge

The study also points to a rise in access litigation, because of a corresponding rise in sealed Government documents and court cases. The *Dallas Morning News*, for example, reports in the study that 80 civil cases were sealed in the county between 1920 and 1979, but more than 200 such cases have been sealed without notice to the public or press since 1980.

Because access laws are unclear about which court proceedings and Government documents are open to the public, "news organizations often are forced to resort to litigation to determine the extent of the public's rights of access," according to the report.

Access litigation is generally not paid for by insurance, so most cases are carefully chosen, the report says. The SPJ believes that editors will press on, regardless.

"Until the boundaries of access law are clearer, the Government can be expected to continue its attempts to hide malfeasance, incompetence and inefficiency behind murky legal precedents," says Bruce Sanford, counsel to the SPJ, in the study.

The growing pains of access law, the study concludes, appear to be just beginning.

The SPJ survey is being publicized in the society's annual report and has been sent to its 20,000 members, McMasters says. Hopefully, he says, "What will come now is that people in the media, academic or legal professions will do a real hard study."—*L.F.*

Impulse sales threatened by drop in supermarket outlets

Fewer stores, busier shoppers create a publishing challenge

New York City—Fewer supermarkets and busier shoppers are forcing publishers to sharpen their retail strategies if they want shoppers to toss their magazines into grocery carts, according to a new research report from ICD/The Hearst Corporation.

The report, "Marketing Dimensions," notes that the number of stores dropped from 152,000 in 1986 to 150,000 in 1987, revealing "a potentially dangerous trend for publications, which rely heavily on impulse sale."

Moreover, shoppers are not going to the store as often, and spend less time there when they do. In 1984, customers shopped an average of 2.4 times per week. By 1987, the report says, they were shopping only 1.7 times per week,

MICHAEL PARCHMENT

finally getting to that last reader a bit tattered and well-read. "*Modern Materials Handling* offers you six for the price of one . . ." reads the headline.

Sbordon says Maxx MacConnachie, vice-president of the BPA, addressed his sales force on the importance of the pass-along results and the meaning behind having so many extra readers. "It demonstrated the power of the business press," says Sbordon. "We can't continue to increase circulation like consumer magazines, so we improve our product, and get more pass-alongs."

Fischer says he thinks the BPA audit will benefit business magazines with a paid circulation even more than those that are controlled; because they cost money, it is even more likely that they are passed around a lot. "If I was paid [circulation] I'd be rushing to do this," he says.

BPA says it is talking with other magazines about doing the audit, but no further projects have been confirmed yet. The cost of the audit is based on the print run of the publication. A sample cost, Williams says, would be $2,150 for a magazine with a print run of 54,000 to 60,000.—*L.F.*

FTC hobbled in ad regulations

Official argues that understaffed agency could give regulatory power to states

Washington, D.C.—The Federal Trade Commission may be irreversibly forfeiting its role as national regulator of false and deceptive advertising, one of its commissioners warned recently.

Because of budget cuts, the agency has fewer employees now than at any time since 1961 and is in danger of becoming a "stealth [invisible] agency," according to Andrew J. Strenio Jr., one of the five presidentially appointed commissioners who run the agency. He spoke in November at a conference on advertising law sponsored by the American Advertising Federation.

Although manpower has dropped at the FTC, advertising expenditures in the United States have risen from $1.7 billion in 1961 to $14.7 billion in 1987, or 240 percent when inflation is factored out. If FTC staffing had stayed level with advertising growth, the agency would now have more than double the number of employees Congress budgeted for in the 1989 fiscal year, Strenio notes.

The consequences of ignoring the situation, he claims, will involve more than just an increase in false advertising or antitrust violations. Pressure from consumers for greater regulation of nutritional and health advertising, for instance, may force state attorneys general to step in to fill the gap left open by a hobbled FTC. That may result in 50 different sets of laws to govern some issues that are clearly national in scope, says Strenio. "Competition could be inadvertently stifled as a result of an overly intrusive policy by the states in particular areas," he says.

"If there is no change in the current FTC metabolism, then the states will continue to take on more responsibility and become more deeply entrenched," Strenio says. "Congress certainly will not pre-empt the states where it perceives little Federal presence. This is true even though the logic is overwhelming that—in most cases—the public would be best served in matters of interstate commerce by a consistent, Federal approach.

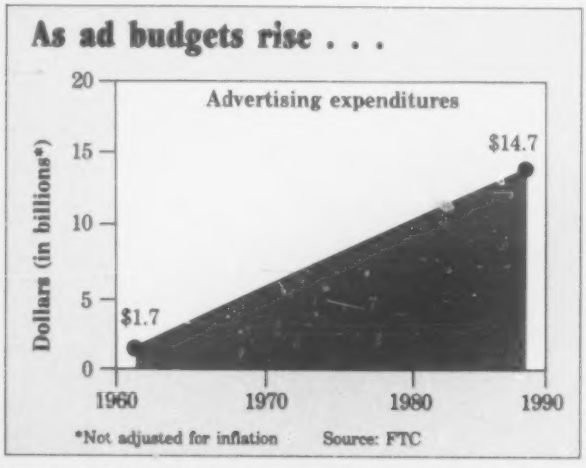
"Further, the longer the FTC plays second fiddle to the states, the harder it will be to change the tune," he adds.

Another factor in the FTC's future is President Bush's appointment of three new FTC commissioners by the end of this year, including a new chairman. "That power is all the greater because the commission is delicately balanced on a number of issues," Strenio says. "As such, the arrival or departure of even a single commissioner could have a pronounced impact both on individual cases and on the long-term direction of the agency."

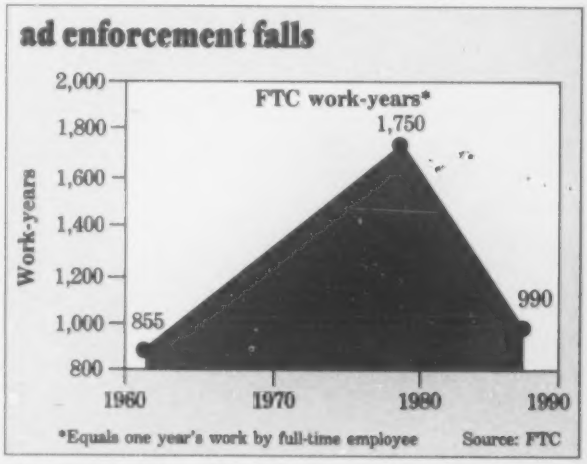
Dearth of cases

Meanwhile, signals point to an inactive FTC, he says. For instance, in food advertising, FTC actions since 1986 can be counted on one hand, he says.

"This is not the kind of track record that will convince the states to concentrate their efforts elsewhere," he argues, "especially since the public is paying increasing attention to health aspects of food consumption."—*M.H.*



If the FTC can't keep an eye on ad fraud, it's likely that state attorneys general will, says a commissioner.



Eventually, that could mean 50 different sets of laws to obey, he warns.

Concentrated advertising boosts recognition

New York City—Concentrated advertising campaigns boost product familiarity and company awareness according to McGraw-Hill Research.

The first study measured a 31 percent increase in product recognition after a manufacturer of power conditioning equipment ran 24 ad pages over a 15 month stretch in McGraw-Hill's *EC&M*. Recognition of the product jumped from 30.9 percent before advertising to 40.4 percent after placing eight four-color, two-page spreads and eight four-color, full-page ads.

"Advertising communicates the exact product and benefit information, delivering a consistent message time after time," according to the McGraw-Hill Research Laboratory of Advertising Performance (LAP) report. "Further, as competitive products enter the marketplace, advertising helps to maintain and strengthen a product's visibility by informing, persuading, and reminding prospects about the product's benefits."

The survey, which went to 400 readers, had a 49 percent response rate.

In another test, a firm that sold uninterruptible power systems (UPS) was recognized more than twice as often after placing ads; a company that sold equipment and power regeneration equipment had an awareness rating 67 percent higher than before it advertised.

Each report was conducted by mailing questionnaires to 400 names selected on a random basis by the *EC&M* Electric Industry Evaluation Panel. Two-hundred electrical contractors, 140 building facilities electrical specialists and 60 engineering consultants were questioned.

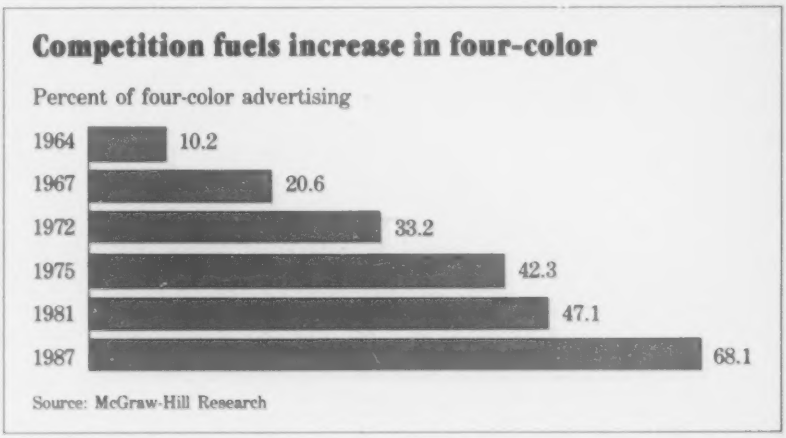
The second questionnaire achieved a 53 percent response rate.□

Four-color ads on the rise

New York City—Business-to-business advertisers have continued a three decade tradition of increasing four-color advertising, according to McGraw-Hill Research's Laboratory of Advertising Performance (LAP). The study shows a near seven-fold increase in the number of four-color pages printed between 1964 and 1987.

On average, two-thirds of all ad pages in 1987 appeared in four-color, up from 47 percent in 1981. Data for the report was obtained from 19 McGraw-Hill publications.

"I would think that use of four-color is very prevalent now because it enhances the attractability of the ad," comments Sheldon Wayman, manager of LAP. "I think advertisers are realizing the impact of four-color as opposed to black-and-white. The major goal is to establish contact with your audience, and the eye is more likely to identify with four-color," claims Wayman.□



***Use of four-color** has jumped sevenfold in two decades, making it tougher for business ads to stand out from the competition.*

TRUE OR FALSE:
Do facts or myths guide your direct mail decisions?
Take this quiz and see:

1. Cheap is economical.
2. Everything should be tested.
3. Creative people work best with super tight deadlines.
4. You can get a breakthrough without taking chances.

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Advertorials hurt edit, say 39% of editors

New York City—Most editors worry that advertorials force them to assume the role of vendor for the advertiser, according to a recent survey conducted by the Association of Business Publishers (ABP).

The ABP questioned members on advertorials and supplements last fall, and received 163 responses. Among the findings:

- About 39 percent of editors were concerned about advertorials compromising the credibility and independence of their staffs. Sixty-five percent, moreover, were concerned about editors assuming the role of vendor for advertisers.
- A majority of respondents published three or fewer advertorials per year; many published none.
- A slim majority (51 percent) said their publications actively sought advertorials. Sixty-five percent of editors, on the other hand, indicated that their publications actively sought to publish special supplements, which are aimed at an advertiser segment, but with no advertiser control over content.
- In a large majority of cases, advertorial ideas are generated by the sales department or advertiser. About 23 percent of respondents, however, believe editors should be encouraged to develop advertorial concepts.
- About half the editors believe the advertorial should not be written by a staff member. Some, however, say advertorials should be staff-written in order to maintain quality.

Some editors also added their own thoughts on advertorials, with one stating that "advertorials reduce publishing to direct mail," while another called the sections "a necessary evil." On the other hand, advertorials had been especially helpful drawing new advertisers to one magazine, said one editor. Another offered that "provided advertorials are clearly flagged as 'advertisments,' I have no serious problem with them."—*E.T.*

Sounding off on advertorials

Advertorials . . .	Respondents who agree
Are valuable in improving market position	35%
Should always be written by nonstaff	50
Should be bylined	17
Compromise the credibility of the staff, particularly with regard to advertisers	39
Have little effect on staff credibility	28
Put editors and the magazine into the dangerous and awkward position of being a vendor for advertisers	65

Source: ABP

***Nearly two-thirds** of business editors were concerned about assuming the role of vendor for advertisers.*

Graphic Arts Association sponsors awards

Philadelphia—The Graphic Arts Association (GAA) is currently accepting entries for its second annual Power of Print contest, which endorses the use of print advertising over other media. While the contest is open to advertising and design agencies in Pennsylvania, New Jersey and Delaware, inquiries are welcome throughout the country.

"We thought it was time to bring advertising and design agencies into closer ties with the print industry," said David Phillips, director of communications for the GAA.

The contest began in 1973 and ran three years before being discontinued for financial reasons. Last year the GAA, with supporting sponsorships from the *Philadelphia Daily News* and *Philadelphia Inquirer*, renewed the competition and received 50 entries. Phillips expects that number to exceed 200 this year because of publicity generated from the 1988 contest.

Ten finalists' ads are sent to newspapers and magazines throughout the country where they can be used free of charge. Over 500 publications ran the winning ads in 1988.

***Last year's award-winning** Power of Print ads were published in more than 500 magazines.*

The finalists will be announced at the Neographics Awards ceremony on May 17. Helriegel-Keenan of Allentown, Pennsylvania, was the winning agency a year ago. All entries must be received by March 31. For more information call Fred Phillips at 215-299-3327.□

Inc. video wins award

Boston—*Inc.* magazine's video titled "Creating a Winner: The Real Secrets of Successful Marketing" received an American Video award from the American Film Institute and *Billboard Magazine*.

The 70-minute video, the fourth in a series of business videos from *Inc.*, won for best original program in the business category for 1988.

Cosponsored by AT & T, the video features marketing tips from five top entrepreneurs: Eliot Wadsworth, owner and president of the White Flower Farm; Stew Leonard, chairman of Stew Leonard's supermarkets; Henry Block, president of H & R Block; Tom Monaghan, founder of the Michigan-based Domino's Pizza; and Bill Samuels, chief executive officer and president of Maker's Mark Distillery. The video includes information on AT & T services, but does not actively promote *Inc.*, says a spokesperson for the magazine.

"Creating a Winner" was produced by Teletime Video Productions of Great Neck, New York. *Inc.* paid $180,000 for the video and sells copies of it for $59.95.

Inc. declined to comment on revenue produced by the video. "We're very pleased with the results," says the spokesperson.□

1988 magazine launches and mergers & acquisitions

FOLIO:'s roundup of 1988 magazine start-ups and merger and acquisition activity were featured in the January and February issues. Following is an updated listing that presents magazine data unavailable for our original articles.

New magazines

Magazine	Company	Audience	Circulation in thousands	Type of circulation
March/Business				
SportCare & Fitness	SportCare, Inc.	Coaches, trainers, aerobic and fitness instructors	35	Nonpaid
April/Business				
RIS News	Edgell Enterprises, Inc.	Retail technology managers	10	Nonpaid
April/Consumer				
Hispanic	Hispanic Publishing Corporation	General interest for Hispanics	150	Paid & nonpaid
October/Business				
Control	Putman Publishing Company, Inc.	Instrumentation and control systems personnel	75	Nonpaid
Food Business		Managers of food businesses	40	Nonpaid
The Texas Printer	Branch-Smith, Inc.	Printers in Texas	4	Paid
November/Business				
DJ Times	Testa Communications	Professional disc jockeys	15	Nonpaid
Executive Living	Business Journal Publishing Co.	Northeastern Ohio business executives	27	Nonpaid
Pro	Johnson Hill Press, Inc.	Professional lawn maintenance firms	45	Nonpaid
RT	Curant Communications, Inc.	Respiratory care practitioners and therapists	20	Nonpaid
The Journal of Invasive Cardiology	Health Management Publications	Primary cardiologists and cardiovascular surgeons	13	Nonpaid
December/Consumer				
Aqui	Aqui Publications, Inc.	Men 18-49	N/A	Paid
Modern Short Stories	Claggk Publications, Inc.	Short-story readers	N/A	Paid
The Keys Guide	Prescott Visitor Magazines	Visitors to the Florida Keys	30	Nonpaid

Mergers and acquisitions

Acquiring company	Magazine	Audience	Frequency	Circulation in thousands	Seller
October					
ACT III Publishing	*Mix*	Recording industry	Monthly	33	Mix Publications, Inc.
	Electronic Musician Magazine	Musicians	Monthly	44	
Chemical Week Associates	*Chemical Week*	Chemical process industry	Weekly	49	McGraw-Hill Publications
	Industrial Chemist	Chemical process industry	Monthly	40	
Computer Systems News	*Systems Integration Age*	Computer system users	Weekly	72	Schueler Communications, Inc.
J. B. Lippincott Co.	*Oncology Times*	Physicians who treat tumors	N/A	21	Herlitz Publications, Inc.
	Orthopedic Product News	Foot doctors	N/A	29	
	Emergency Medicine and Ambulatory Care News	Health care professionals	N/A	27	

(CONTINUED ON PAGE 63)

Acquiring company	Magazine	Audience	Frequency	Circulation in thousands	Seller
October (CONTINUED)					
Medical Economics Co.	*Business & Health*	Company benefit and health care planners	Monthly	30	Health Learning Systems
	Healthy Companies	Company benefit and health care planners	Quarterly		
	Managing for Health	Company benefit and health care planners	Quarterly		
PennWell Publishing Co.	*The Oilman*	Oil industry	Monthly	17	Maclean Hunter Ltd.
November					
Feredonna Communications	*Magazine Issues*	Magazine publishers	Bimonthly	13	Coast Publishing, Inc.
Financial Communications, Inc.	*Northwestern Banker*	CEOs and general managers of banks	N/A	7	Ben Haller
National Journal	*Military Forum*	Military personnel, Congress and defense suppliers	9 x per year	27	Argus Press Holdings
Patricia MacKay	*Cue*	Theater designers	Bimonthly	N/A	Twynam Publishing Ltd
December					
The Economist Newspaper Group, Inc.	*CFO*	Financial executives	N/A	300	Neil Goldhirsh
The Laux Company, Inc.	*Insurance Conference Planner*	Conference planners	N/A	13	Bayard Publications, Inc.
	Convention World	Conference planners	N/A	6	

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Special report

Are retailers getting the message?

An exclusive FOLIO:/ *Supermarket Business* survey reveals exactly what retailers know about Direct Product Profit

JEAN MARIE ANGELO
SENIOR EDITOR

How do the Magazine Publishers of America (MPA) spell relief for single-copy sales declines? They spell it D-P-P, which stands for Direct Product Profit, an in-depth way of measuring profits that goes beyond a simple measurement like gross margin. For several years the MPA has proudly presented studies that show magazines as one of the most profitable items sold in convenience stores and supermarkets, when measured with a DPP formula. But some retailers seem not to have gotten the message. Although elaborate charts tell an exciting story for magazines, FOLIO: has found that many retailers do not recall the study—or worse, do not plan to increase space for magazines.

In 1986 the MPA commissioned Touche Ross & Co. to measure magazine profitability against other common general merchandise items. To date, MPA has presented the results of its DPP studies to the executives who run 25 of the largest supermarket chains. Other trade associations have made presentations at dozens of smaller chains.

The data are impressive: Magazines, when measured by the more involved DPP formula, are in the top third in terms of profitability. This means they are more profitable than such popular products as video rental tapes and beer—but they are not given as much space in the stores as the less profitable items. The goal of the study was to get retailers excited about magazines, to protect the space at the front end, and to get them to add space on mainline racks.

Relevance to the bottom line

But not all retailers have recognized the relevance of the study to their bottom lines, according to a survey conducted by FOLIO: and *Supermarket Business*.

To get the retailers' reaction to the commissioned magazine DPP study, FOLIO:, in conjunction with *Supermarket Business*, polled the top supermarket and convenience store chains in the United States. Questionnaires were sent to the general merchandising executives at 196 supermarket and convenience store chains. Seventy-four executives responded, a 38 percent response rate.

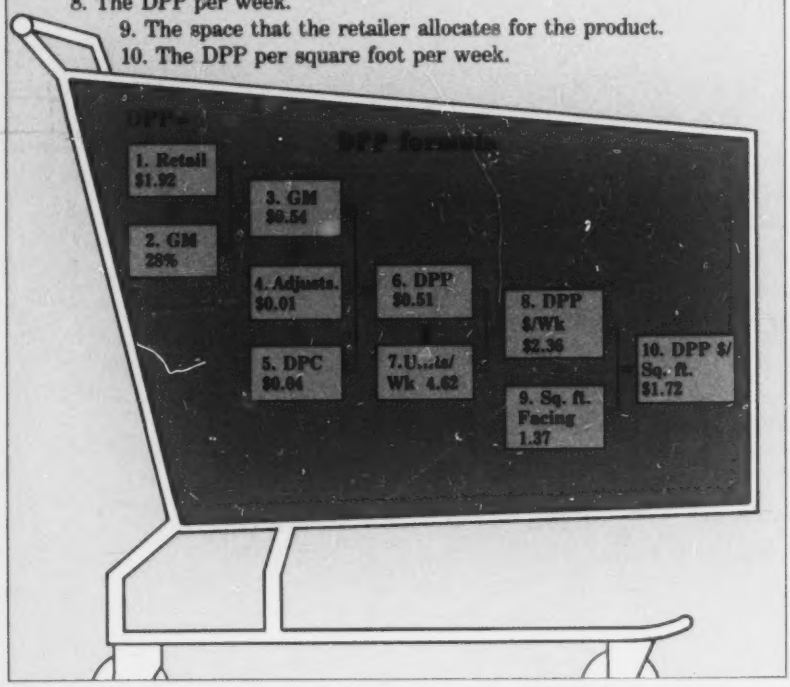
A significant finding was that many of the general merchandising managers at the top 196 chains were not familiar with the results of the magazine DPP study, and had no plans to increase space for magazines. The explanation may be simple: MPA made presentations to CEOs, presidents and other top level executives. The goal was to inform top management about magazine profitability in hopes that the data would influence long-term space allocation decisions, explains David Lee, senior vice president, MPA. The FOLIO: survey contacted general merchandising managers (middle management). Apparently, the good news about magazines, in some cases, has not filtered down to the people who do the day-to-day planning.

> "Apparently, the good news about magazines, in some cases, has not filtered down to the people who do the day-to-day planning."

In other cases, however, it is not

Here's how retailers determine Direct Product Profit

1. The sale price of an item.
2. The percentage of the retail price that is profit for the retailer.
3. The retailer's gross margin.
4. Additional revenue for the retailer, such as the magazine industry's Retail Display Allowance (RDA).
5. The Direct Product Cost, which includes transportation and other handling costs that the retailer incurs.
6. The Direct Product Profit (DPP).
7. The number of units sold per week.
8. The DPP per week.
9. The space that the retailer allocates for the product.
10. The DPP per square foot per week.



just middle management that cannot recall the magazine DPP study. Although The Southland Corporation, parent company of the 7-Eleven chain, allowed one of its stores to be part of the convenience store study, Southland's president, Jere Thompson, did not remember the MPA's study when contacted for our survey. In addition, Thompson did not believe that Southland divisions would necessarily be granting more space to magazines.

Other merchandising executives who do know about the study have not felt the need to increase space for magazines. This is true for three of the 25 chains that the MPA targeted—Meijer, Inc., Shaw's Supermarkets Incorporated and Sentry Markets Inc., according to our survey.

What's the investment?

These responses are disappointing, considering the time invested in the DPP effort. MPA began working on the project three years ago. The first study, released in late 1986, revealed that magazines were the fourth most profitable general merchandise item sold in the three convenience stores studied.

> "The profitability of magazines warrants that they get more space."

Several months later another study revealed that magazines were in third place in supermarkets.

The MPA funded the initial studies, and then asked the Council for Periodical Distributors Associations (CPDA) for financial help in spreading the word to the industry. The two financed a videotape to explain the study results to the retail community, and also prepared printed materials. CPDA then agreed to go 50-50 on further studies, such as the recent one conducted in discount department stores. The two associations asked publishing companies and national distributors to chip in, as well. It is estimated that, to date, $1.05 million has been spent on the DPP studies.

MPA has spent the most, an estimated $750,000. CPDA has contributed $300,000 to the effort, and the rest has come from other companies.

Has the investment paid off? Yes, insist the associations. But the success may not be marked by cheers and applause.

It might be difficult to find an executive who has seen the presentation and said, "Stop, I'm calling my stores to tell them to add five feet of space," says John Harrington, president of CPDA. But a more positive attitude toward magazines does exist. "We wanted to create a more friendly atmosphere. These people are under a lot of pressure from other product lines that want the space allotted to magazines. We now see a friendlier atmosphere in keeping magazine space," he says.

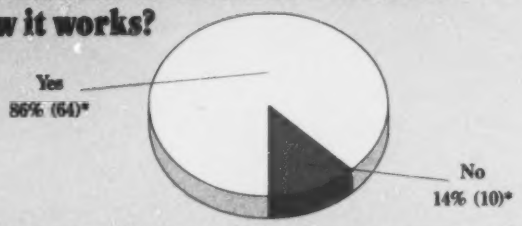
The MPA has stated in the past that its goal was to be more of a "consultant" to the retailers, without looking self-serving. It is the reason MPA hired Touche Ross & Co. to do the DPP studies. The Touche Ross organization had already conducted DPP studies for the frozen foods industry, and had done management consulting for supermarket chains.

This approach has had an impact, say Lee and Harrington. A new acceptance of magazines was evidenced by the tone at the most recent conference of the Food Marketing Institute, held in the fall, says Harrington. Several presentations on general merchandise referred to magazines as top profit producers, he adds.

Wholesalers and national distributors contacted by FOLIO: say that most retailers who have seen the magazine DPP studies have reacted in a positive way. Few have totally dismissed the findings. The wholesalers also say that they have made some gains as a result of the studies.

Farmer Jack Supermarkets, a chain, has granted additional space for testing on magazine sales; Bruno's Inc.,

Are you familiar with the DPP formula and how it works?



There are even some chains in the top 200 gross revenue producers who don't know about DPP, even though the formula was introduced to the supermarket industry more than a decade ago. Familiarity with DPP is important if chain management is going to be impressed with the MPA's findings.

***The number of respondents who answered the question is in parentheses.**

in Birmingham, Alabama, has given up approval of every title, and has allowed the wholesaler more leeway in stocking the racks; King's Super Market division in Denver has converted a lot of direct business to local wholesalers.

Louisville News, a wholesaler in Kentucky, reports that the Louisville area stores of The Kroger Co. have increased mainline space for magazines. When the chain recently opened six superstores (stores with square footage between 60,000 and 70,000), magazines and books were put in a separate "reading center," with increased space. Magazines have 20 to 28 feet of shelving, while the rest of the 122 feet of shelving goes to books, says Jane Donaldson, manager of Louisville News. Consequently, magazine sales for Kroger have increased by 300 percent, says Donaldson. Magazine dollar volume for just one of the stores has gone from $700 to $2,200 per week, she says.

This activity may create a domino effect on other chains with stores in the area. Winn-Dixie Stores, Inc., a chain that has been less receptive to the magazine DPP story, may reconsider spacing decisions after witnessing Kroger's move, speculates a wholesaler.

The retailers who have developed a more positive attitude about magazines may not be aware of how the DPP studies influenced them, which may explain the results of the FOLIO:/*Supermarket Business* survey, suggests Donaldson.

Other retailers directly refute the studies' inference that more space for magazines will bring more profits.

"I don't know if more space really means more sales for magazines," says John Green, buyer and direct store delivery coordinator for First National Supermarkets, Inc., a chain with 68 stores in the Northeast. The chain allots 12 feet of magazine aisle space in its larger stores, and eight feet in its smaller stores. "I've gone beyond that in some stores, but then we've run into problems in getting titles that sell. When you go beyond 16 feet of space, the racks start getting filled with a lot of garbage. Ninety-nine wrestling magazines—titles that don't sell."

> "Most retailers who have seen the magazine DPP study have reacted in a positive manner."

Savvy marketing is more important than space, Green says. Keeping the racks neat and stocking magazines that appeal to the demographic area will affect sales more than additional footage, he says. "*Architectural Digest* doesn't do me a lot of good in the Bronx," he adds.

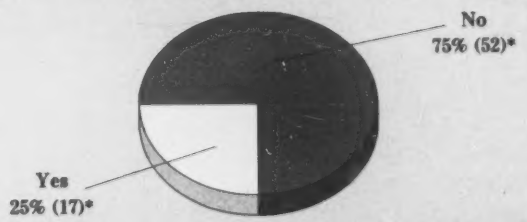
"Once you get beyond 16 feet, the sales taper off dramatically. Fifty percent of our magazine sales, if not more, probably come right off the check-out," Green says.

Still, Green adds that the DPP study has been effective in protecting check-out space for magazines. The study does show executives who are not familiar with magazines how much money they can make, he says. It is especially important to understand that magazines are an impulse buy, since they are fighting for check-out space with candy, gum and newer items, like videotapes.

"It is definitely more competitive for check-out space. Gone are the days when we give space out at random. The average supermarket today doesn't have room on the shelves to market what is offered," Green adds.

Retailers have issued other retorts to the study. "Each views his own company as unique," says Mark Caldwell, executive vice president of the Maga-

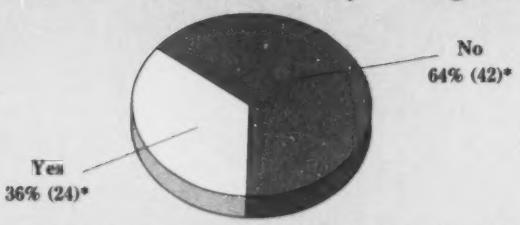
Does your chain use a DPP calculation to make space allocation decisions?



A large percentage of chains don't use DPP, even though it has been trumpeted as the most accurate way to measure profitability. Managers at the smaller chains in the top 200 say that they base their space decisions on gut feelings. Some respondents offered comments: "We can't see how using DPP would change how we do our business." "Our bigger stores have allocated more space for magazines. We don't use DPP, but as we see the studies, we consider increasing space category by category. As we build newer stores we will be adding more space for magazines." "DPP is very good, but it is only a part of the whole picture. It's in its infancy right now, and has a way to go."

***The number of respondents who answered the question is in parentheses.**

Are you familiar with MPA's study of magazine DPP?



Most general merchandisers are not familiar with the magazine DPP study, even though the top magazine and periodical associations presented the results at many chains. Some who were familiar with the study offered comments: "The magazine DPP survey had problems because it compared magazines to other nonfood items. It would have been more useful if it had compared magazines to food items." "I was amazed at the high figures in the magazine DPP study."

***The number of respondents who answered the question is in parentheses.**

zine and Paperback Marketing Institute, a group that has helped spread the word to the supermarket industry. There is the attitude that "this shoe doesn't fit my foot," he says. (The supermarket study was based on two stores.) "What the study begs is, yes, this is not necessarily your store, but these results are indicative of how magazines sell in supermarkets."

Categories that are the most profitable in one store are usually the most profitable in other stores, explains John Phipps, national director of consumer products consulting, Touche Ross & Co., and the man who led the magazine DPP effort. The actual DPP numbers may change, but the concept is the same, he says.

Where's the follow-up?

To date, however, MPA and the related associations that have brought the DPP message to retailers do not have follow-up on how effective the study has been. No association has a list of how each chain has reacted to the DPP studies. The reason for this may be two-fold: The merger and acquisition activity in the supermarket industry makes it hard to get fixed numbers on future plans; and the budget considerations of the MPA and other associations may prohibit an extensive follow-up. MPA and CPDA have considered surveying those chains that have seen the magazine DPP presentations, but this is still in the planning stages.

"People want tangible results," acknowledges Jack Fitzmaurice, president and CEO of Periodicals Institute, and member of the MPA's single-copy sales task force. "We were perhaps lax in not keeping track of the specific reactions to the study. I can't defend the fact that we don't have a list of what happened. But I can say that positive things did happen," he states.

> "Video rentals are the biggest competitor with magazines for space."
>
> [redacted]

An observer must take a broad view to see the real advantage of the magazine DPP studies, he suggests. They gave the magazine industry a legitimate opportunity to talk to top level retailers. "If nothing else accrues, we've gotten the opportunity to knock on the door and get in when we might not have done that," explains Fitzmaurice.

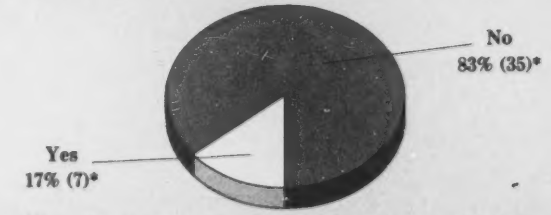
The studies have also given the magazine community one voice. "Fortunately, or unfortunately, our industry has over 400 wholesalers. They can't tell one story like a Procter & Gamble can." The studies and follow-up materials unified the industry, he says.

MPA and CPDA must now look at what they could have improved upon, says MPA's Lee. A trade advertising campaign may have helped keep the message fresh in the minds of retailers, he says, but budget cuts prevented such a campaign. "This is the first cooperative project of the MPA and CPDA. Whatever we can learn from what we did can help us better target and promote to these key people," he says.

Lee firmly believes that the money spent on the DPP studies was a good investment. The magazine industry spends an estimated $1 billion annually producing and distributing copies that go unsold. The $1.05 million spent on the DPP studies "pales in comparison," he says.

It is unlikely that the DPP study has had immediate impact on the convenience store industry, because con-

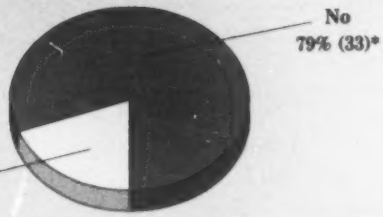
Has the MPA study prompted you to increase space allocation for magazines?



Not many respondents directly cited the magazine DPP study as an influence on space allocation. Still, many said that they were holding firm on magazine space, or increasing it. "In the past month we increased the front end space for magazines." "We're already increasing space for magazines and continue to because they have a high return." "Magazine sales are getting better all the time. We're expanding sections, we do promotional activities and change rack positioning." Six of 74 executives that we contacted said that although they did not know of the MPA's study, they expected to increase magazine space.

***The number of respondents who answered the question is in parentheses.**

Do you expect to add more space for magazines by 1991?



Unfortunately, most of the respondents to this question did not foresee adding space. Several offered insight on future decisions: "If we add space, or build a new store, we will increase magazine space proportionately. But we won't be giving magazines more of a percentage of the space." "We're considering expanding magazine space; we're reviewing it now." "Our space is maxed out at existing fixtures. We were giving magazines 20 percent of the check-out space, and 80 percent in a mainline aisle. Now the ratio is 65 percent to 35 percent."

*The number of respondents who answered the question is in parentheses.

venience store management has yet to fully embrace the DPP measurement concept. In fact, the convenience store industry did not have a standard DPP model formula before the MPA commissioned Touche Ross to design one. The situation is different in the supermarket industry, where a DPP formula has been used for years.

To use a DPP formula in any practical way, a store must use scanners at check-outs, and convenience stores do not use scanners the way supermarket chains do. By not scanning in prices at the check-outs, convenience stores miss out on precise inventory control information. This is necessary if DPP is to be used.

Convenience stores have been slow to jump on the scanner bandwagon because of the nature of the business. These stores tend to be franchise operations, with independent people running their particular stores. They are less likely to spend the $5,000 that it takes to put a scanner at a check-out. Also, convenience stores are smaller in size than supermarkets, and don't have the problems of inventory control. It is easier for a convenience store owner to get a sense of what merchandise is popular with customers without the scanner information.

For now only the very large convenience store chains are likely to use DPP, says Kerley LeBoeuf, president of National Association of Convenience Stores, a group with 1,300 members. The association does expect the use of DPP to grow.

"I've never heard of the MPA's DPP study," adds LeBoeuf. Although the MPA did make a presentation of the study at the NACS conference in November 1986, it is apparent that the facts did not stand out [illegible] the wealth of information presented to retailers.

LeBoeuf can't be chastised for not recalling the MPA's study. Both convenience store and supermarket managers are routinely inundated with studies done by the tobacco companies and other general merchandisers. "Every major category does something every year," explains Tim Hammonds, senior vice president of Food Marketing Institute, a representative for the supermarketing industry. Management in a retail chain might see 25 presentations each year, adds Phipps. A chain may even participate in as many as eight studies per year.

Retailers say that the results of all these studies can be confusing. One supermarket retailer contacted as part of the FOLIO: survey remarked that magazines look good in the magazine DPP study, but other studies conducted on behalf of the paperback book industry make that category look more profitable.

It is understood that the DPP measurement is the wave of the future, allowing for a more accurate profitability picture than gross margin. But the wave hasn't fully come to shore. The most recent Food Marketing Institute's study of DPP use in supermarket chains, conducted in 1986, reveals that

What is the average amount of space your chain allocates to magazines in each store?

	Supermarkets with less than 25,000 square feet	Supermarkets with more than 25,000 square feet
Aisle:	16 feet, 8 inches	28 feet, 1 inch
Check-out:	12 feet, 1 inch	17 feet, 5 inches
Convenience stores:	8 feet, 6 inches	———

Several merchandising managers said that the bulk of magazine sales come off the check-out rack. One respondent believed the magazine DPP study has helped protect this precious front end space. Several offered remarks on their spacing decisions: "We gave 20 feet of space in one of our larger stores, but the vendor couldn't fill it. He asked that the space be cut back. There is a problem with labor. Getting the vendors to service the racks is the real issue." "We've decreased the space allocated to magazines. We had trash, so we took some titles off the rack and sales increased." "We are concentrating on other merchandise right now." "Sometimes you have to choose between paperbacks or magazines. We sell magazines at the front end; we believe that magazines sell well there. If I have more feet to fill I choose a category that is not represented in the space already. Because we offer magazines at the front end, additional space there would be granted to another item." Several say better service from vendors, not more space, will increase magazine sales.

25 percent of its membership was using DPP. This percentage would be higher today, adds Hammonds. Still, DPP has a way to go before it is used by the majority of chains. FMI's membership represents 17,000 supermarkets in the States—about half the total.

"We don't use the DPP formula," says Duane Robelia, director of general merchandising for Fiesta Mart, Inc., a chain with 16 stores in the Houston area. "Most of our decisions are based on personal feelings," he explains. This attitude was common among many of the smaller chains contacted by FOLIO:.

DPP will most likely grow in use as the percentage of products that are delivered directly to the supermarkets increases. Today, one-third of supermarket products are delivered directly to a store, bypassing the need for warehousing. And this percentage is growing, says Hammonds. "One of the beauties of DPP is that it lets you see the profitability of direct delivery compared to warehousing. It gives a measurement of the warehouse and labor costs," he explains.

Several of the people who have presented the magazine DPP studies to convenience store and supermarket executives acknowledge that the information is now dated. It is difficult to open doors with a study that is two years old. The several trade associations involved in bringing the DPP message to retailers are hopeful that the information will be referred to in future general merchandise presentations.

"DPP lets you see the profitability of direct delivery compared to warehousing."

For now, the MPA is focusing its efforts on discount department stores. A study has already been completed on one Target and one Venture store, and the results are making the rounds at Kmart, Caldor's and other stores. Presenting the DPP studies to this group should prove no easier, since DPP is an even less common measurement for discount department stores than it is for supermarkets.

Still, the Magazine Publishers of America, Magazine and Paperback Marketing Institute and Periodicals Institute are convinced that the DPP studies can only help the industry. A glimmer of hope can be found in the impact of a similar study done by Touche Ross in 1986 for the National Frozen Food Association. When Phipps, the Touche Ross executive on the project, presented the upbeat findings on frozen foods at an annual Food Marketing Institute convention, he was challenged on the relevance of the findings. A Kroger executive stood up during the presentation and came to Phipps's defense. Yes, the study had influenced them; and yes they had increased space. In 1987, the average space for frozen food casings was up 11.6 percent over 1985, the year before the DPP study was done for that industry. Perhaps magazines will fare as well.□

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